

## **Historic, Archive Document**

Do not assume content reflects current scientific knowledge, policies, or practices.



7 335.9

sa 4  
wp, 2

UNITED STATES DEPARTMENT OF AGRICULTURE  
Rural Electrification Administration

Presentation by Charles U. Samenow, Legislative and Interagency Consultant, REA, Before a Panel on Rural Electrification at the Summer Conference of the American Institute of Cooperation, August 11, 1964, Michigan State University, East Lansing, Michigan

The Cooperative's Role in Achieving REA Program Objectives

"The problem of actively promoting rural electrification has received serious consideration of utility companies for many years. They have maintained many thousands of rural representatives in the field, promoting the use of electricity. They have generally contributed to the farm schools and agricultural colleges, for the expense involved in extensive research work to determine new uses for electricity for farm operations. As a result, there are very few farms requiring electricity for major farm operations that are not now served."

(Underlining supplied)

This statement is a direct quotation from a letter dated July 24, 1935, addressed to the first REA Administrator by the Rural Electrification Committee of Privately Owned Utilities established to formulate industry plans for the use of the \$100 million President Franklin D. Roosevelt allocated from the 1935 emergency relief appropriations for rural electrification.

This appraisal of the farm electrification market was one of the most serious errors of business judgment ever made by a major American industry. It not only underestimated the market by 90%, a market which today produces gross annual revenues in the order of three quarters of a billion dollars. It reflected a basic misunderstanding of the relationship of electric service to agriculture despite more than a decade of industry participation in the activity of national and state committees on that very subject.

The key to this massive misappraisal of a vast commercial opportunity was the failure to grasp that American agriculture, all facets of rural American life, could not afford to and would not do without electricity. By pricing power beyond the reach of the rural millions through prohibitive line connection charges which were the rule rather than the exception, and costly usage

rates, the industry itself had erected insurmountable barriers to use of their service. If industry leaders had possessed the vision to reach out with their lines and to give rural America an opportunity to enter the 20th - the electrical - century, on an electric service parity with urban America, the electric cooperative need not have developed on the scale it has.

The need, the potential, was there - the unelectrified farm operators and other rural dwellers. They were told they could not afford it. The technique was there; it had been developing for half a century. But it was not being used in rural America. The Rural Electrification Act provided the means for bringing the need and the technique together. Franklin Roosevelt, George Norris, Sam Rayburn, the Congress, had the understanding which fashioned REA with its technical and financial aids, as a tool to reach the objective of electric service of comparable quality with and at rates on a parity with those enjoyed by urban users. The cooperative form of organization supplied the means for effectively utilizing that tool to overcome the barriers to this objective.

Today a thousand electric cooperatives serving 5 million rural homes, schools, businesses, over facilities costing almost \$5 billion, stand as impressive evidence of the predominant role of the cooperative in electrifying rural America.

Let there be no mistake about it. The cooperative had to be used as the instrument to bring electric service to rural America. It was necessary that the service be supplied, that it be of good quality, and that it be priced so that it could be used.

The Rural Electrification Act supplied certain of the ingredients, the equalizers, to help offset the basic handicaps to parity rural electric service. These handicaps which still confront rural electrification were

and are the isolation of rural users with the resulting low density of consumers on rural lines; the economically disadvantaged condition of many areas which needed to be served; the high cost of constructing lines out into the country; lack of diversity of load and of large power consumers; high wholesale power costs; and the low revenues which might be expected to flow from these lines.

Let us consider the equalizers supplied through REA. The technical assistance provided made possible the development of economical rural electric systems. In 1935, the cost of building a mile of distribution line designed like those in the city was \$2500; single-phase lines built by the utility companies then cost between \$1500 and \$2000 per mile. Construction techniques and designs developed by REA brought the average cost of rural lines down below \$1000. In 1935, management of an electric system, no matter how small, was considered to require the abilities of highly trained, highly paid personnel. Managerial techniques devised and refined by REA exploded that myth.

Financial assistance in the form of long-term loans at low interest rates offsets the handicap of low consumer density, large capital requirements and low revenues. The authority to make loans for the generation and transmission of electricity supplies the bargaining strength of the rural systems which otherwise would have been at the mercy of a hostile monopoly. The recognition given the nonprofit nature of cooperative rural electrification by the special income tax provisions which have long been available to other similar such enterprises is another equalizer provided by the Congress.

Important as these external equalizers are, it must be recognized that they alone would have been insufficient to achieve the gains which have been made in the rural electrification program. Cooperation plays an equally important role by providing internal equalizers which are indispensable ingredients for the success of the program.

Let us examine first the tangible equalizers supplied by the cooperatives. All of them do not appear on the balance sheets or the operating statements of the cooperative systems. The cooperative form makes possible consumer ownership of these service enterprises. Each consumer initially invests a nominal amount in the form of a membership fee, usually \$5. This entitles him to receive service for which he agrees to pay. Part of his service payment is used to retire the government investment made in the form of REA loans. To date, cooperative member-consumers have in this way invested more than a billion dollars in their systems, in addition to interest payments of more than \$600 million. On this substantial investment, they receive no dividends or interest. In addition, through their periodic payments for service, they are building the necessary reserves and margins which are bulwarks against future storms and uncontrollable crises. Through these investments and payments, they help to build internal strength and future financial independence for the cooperative systems they own.

The electric cooperatives are operating about a million and half miles of distribution lines, a substantial part of which is located on private rights-of-way, given without charge by member-consumers to their cooperative systems. The value of these land rights runs into millions of dollars. These values do not appear on the cooperative ledgers. But the asset is a real one and exists because the systems are cooperatives, and their members are willing, indeed anxious to contribute these rights to use the land they own.

There is no record of the millions of hours of volunteer effort contributed to the cooperatives by the dedicated pioneers who performed the herculean tasks of organizing their cooperatives and making them work. Around the country in the mid-30's, candles and oil lamps burned in country schoolhouses, churches, grange halls while these volunteers conducted sign-up meetings,

solicited easements, collected membership fees, and laboriously mapped out and tabulated the results of their labor so that a concrete, feasible rural electrification plan could be submitted to Washington. These are labors for which the commercial companies pay and pay well. These payments appear on their books as part of the cost of their systems. For the rural cooperators there is no monetary reward. For them, the reward is the satisfaction derived from seeing their rural communities and their own homes lighting up as a result of their cooperative effort.

In the early days, in some communities even the low costs made possible by the new construction techniques and by the modest REA finance terms were more than a depressed rural economy could bear. Here, self-help developed and was fostered by the cooperative method of functioning. Farmers and their neighbors pitched in with their labor and their own moving equipment to build the lines which would serve them. For this, they received credit at cut-rates for their contributions so that they might be enabled to join in the rural electrical revolution. Cost per mile of line on the self-help plan dropped as low as \$600 per mile and occasionally even lower. The values created are not recorded on the formal balance sheets of their systems. But they are there, and there because the services were performed for the mutual benefit of all -- through their cooperatives.

So much for the tangibles, those measurable in dollars and cents. The most effective of the internal equalizers, those generated from within, is the spirit of cooperation. This produced and continues to build up the tangible equalizers already partially catalogued. But more than that, it was and is the catalyst which brought the necessary elements together and created the phenomenal achievements in rural electrification during the past quarter century. We Americans have always taken pride in our pioneering exploits.

That same spiritual spark which drove our ancestors to wrest a mighty nation with a new and great civilization from a savage wilderness was ignited when REA came into being. Americans in countless communities across our Nation joined hands, heads and hearts to shape a new dynamic dimension in the electric industry -- the electric cooperative. It is this spirit of cooperation, reflecting a high sense of community responsibility and an unselfish willingness to endure further the short-run inconvenience of doing without immediate electric service so that the whole community might benefit, that kept the leadership from succumbing to offers of sudden service which fell into their laps as soon as their actions evidenced the seriousness of their intentions. They stayed together, worked together and fashioned for their locally-owned rural electric systems a distinctive trademark - "owned by those we serve" - which today is recognized as a meaningful symbol of achievement through cooperation in most of America's rural counties.

The example set by these cooperative systems has served as a stimulus to other segments of the electric utility industry. Today about 98 percent of our farms are electrified; more than half are served by cooperatives. As the cooperatives demonstrated that the barriers to universal rural electrification could be breached, as they exploded the myths that rural electric service was not economically feasible and that a limited amount of such service could be provided only by massive aggregations of capital in the hands of experts, the commercial systems were stimulated to an aggressive program of expansion in the more profitable areas which they had previously neglected. The cost of farm and rural residential service has been cut in half since 1935. This too is a splendid tribute to the competitive example set by the cooperatives.

Much the same story can be told of the rural telephone program which was initiated in 1949 under a Congressional mandate to REA that "adequate telephone service be made generally available in rural areas" and "to assure the availability of adequate rural telephone service to the widest practicable number of rural users of such service." The example of success of the electric cooperative has contributed greatly to the achievement of the program objectives of REA's telephone program.

In rural area development, a term which envelops all REA program objectives, there is a stirring record of contribution and achievement by the REA-financed cooperatives which have provided valuable local leadership and support in the communities they serve.

So much for past achievement. What of the future? It is loudly proclaimed in some quarters that the job of rural electrification is done, that the legitimate REA program objectives have been attained. The simple fact is that the nature of the job of rural electrification is such that it will not be completed so long as people need and use electricity. Nor will the basic objective of the REA electrification program be reached until rural people have achieved full parity of electric service, service of a quality and a price comparable with those prevailing in urban areas. This objective can and will be achieved if the rural electric systems continue to develop their maximum service capabilities, resist external attack and pressure, and fight for recognition and treatment as an integral part of the American electric utility industry. The individual systems functioning as cooperatives are meeting their service responsibilities. Joined together in their cooperative statewide organizations, they are aggressively campaigning for the passage of state legislation designed to give them a fair measure of

protection against encroachment upon their service territories. They are federating in regional generation and transmission cooperatives so that their relatively small and isolated local organizations can participate in the economies and benefits of the new power technology - large scale generation, high voltage transmission, interconnection and pooling. They have a strong and effective national organization which gives them a voice which is heard.

Thus on the local, regional, statewide and national fronts, the cooperative is demonstrating that it is the dynamic dimension of rural electrification.

U. S. DEPT. OF AGRICULTURE  
NATIONAL AGRICULTURAL LIBRARY  
SEP 17 1964  
C & R-PREP.